

# IAS PARLIAMENT

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## YOJANA

### AUGUST – 2017



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## YOJANA – AUGUST 2017

### 1. GST - DAWN OF NEW ERA

#### Why in news?

Goods and Services Tax (GST) came into effect in India on July 1, 2017.

#### What are the key features of GST?

- GST is a destination-based single tax on the supply of goods and services from the manufacturer to the consumer, which has replaced 17 indirect taxes (8 Central + 9 state levels) and 23 Cesses of the Centre and states, thereby converting the country into a unified market.
- GST is applicable on "supply" of goods or services as against the present concept of tax on the manufacture of goods or on sale of goods or on provision of services.
- It is based on the principle of destination based consumption taxation as against the present principle of origin based taxation.
- Import of goods is treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties and import of services is treated as inter-State supplies and would be subject to IGST on reverse charge basis.
- CGST, SGST /UTGST & IGST is levied at rates mutually agreed upon by the Centre and the States under the aegis of the GST Council (GSTC). And the territorial spread of GST is whole of the country including the State of Jammu and Kashmir.
- There are four tax slabs namely 5 per cent, 12 per cent, 18 per cent and 28 per cent for all goods or services. Precious metals would be subject to tax @ 3 per cent whereas rough precious stones attracts tax 0.25 per cent. Some specified goods or services have been exempted.
- GST covers the entire gamut of goods and services except Alcohol for human consumption which is constitutionally out of GST. Besides, five petroleum products (Crude, Petrol, Diesel, ATF and Natural gas) are out of GST at present and can be brought into GST fold on recommendation of GST Council.
- A common threshold exemption of Rs. 20 lakhs (Rs. 10 lakhs for special category States as specified in article 279A of the Constitution except State of Jammu & Kashmir) for both CGST and SGST/UTGST has been provided for.
- Also an option to pay tax under composition scheme (i.e. to pay tax at a flat rate without credits) is available to small taxpayers (other than specified category of manufacturers and service providers) having an annual turnover of up to Rs. 75 lakhs.
- Various modes of payment of tax available to the taxpayer including internet banking, debit/credit card and National Electronic Funds Transfer (NEFT) / Real Time Gross Settlement (RTGS).
- Refund of tax has to be sought by the taxpayer or by any other person who has borne the incidence of tax within two years from the relevant date.
- Advance Ruling Authority in States in order to enable the taxpayer to seek a binding clarity on

taxation matters from the department. Centre would adopt such authority under CGST Act.

- An anti-profiteering clause has been provided in order to ensure that business passes on the benefit of reduced tax incidence on goods or services or both to the consumers.

### What are the benefits of GST?

- Will help to create a unified common national market for India, giving a boost to Foreign investment and "Make in India" campaign.
- Will mitigate cascading of taxes as Input Tax Credit will be available across goods and services at every stage of supply and harmonization of laws, procedures and rates of tax.
- Reduction in the multiplicity of taxes that are at present governing our indirect tax system leading to implification and uniformity.
- Reduction in compliance costs - No multiple record keeping for a variety of taxes- so lesser investment of resources and manpower in maintaining records.
- Simplified and automated procedures for various processes such as registration, returns, refunds, tax payments, etc. All interaction to be through the common GSTN portal minimal public interface between the taxpayer and the tax administration.
- Common procedures for registration of taxpayers, refund of taxes, uniform foitnats of tax return, common tax base, conimon system of classification of goods and services will lend greater certainty to taxation system.
- Final price of goods is expected to be lower due to seamless flow of input tax credit between the manufacturer, retailer and supplier of services.

- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption.
- More efficient neutralization of taxes especially for exports thereby making our products more competitive in the international market and give boost to Indian Exports.
- Average tax burden on companies is likely to come down which is expected to reduce prices and lower prices mean more consumption, which in turn means more production thereby helping in the growth of the industries. This will create India as a "Manufacturing Hub".

## 2. GST MEANS EASE OF DOING BUSINESS

### What is the issue?

It was a tryst with destiny moment for the Indian economy when the whole country came out as one united for transforming the indirect tax regime from an anarchic and complex system to a "Good and Simple Tax".

### What was the earlier situation?

- Earlier companies faced major issues with respect to registration of VAT, excise, customs and service tax; movement of goods; dealing with tax authorities; settling tax disputes; availing tax incentives; and obtaining timely tax refund.
- Transfer of goods across state borders involved payment of taxes in both states, besides resulting in compliance cost. Non-uniformity in taxes across states created uncertainty and confusion in business decisions.
- Taxes levied on goods and services had no clear mechanism for rebates on taxes paid in the previous stages of the value chain, and hence, led to a cascading effect (tax-on-tax).

## What is the impact of GST on Ease of doing Business?

- In the previous tax regime, businesses had to file several returns for multiple taxes, face multiple authorities and suffer long bureaucratic delays for assessment of different indirect taxes. GST, by merging all indirect taxes into one single tax, has made the **compliance much easier** for businesses.
- GST Network (GSTN), providing reliable and efficient IT backbone for the smooth functioning of the GST, taxpayers can register, file, make payments and claim refunds online at anytime from anywhere without having to interface with tax officials. This makes the **compliance process easier, transparent, faster** and paperless and sets the stage for enhanced productivity and efficiency of businesses going forward.
- GST has done away with this requirement paying taxes at check posts in different states including Entry tax and Octroi duty during the movement of goods. This would **bring down the logistics costs** for businesses and prices for consumers.
- The GSTN provides a **single interface** of taxpayers with tax authorities and a single platform for resolving differences. With suppliers, buyers and tax authorities having access to all the relevant information, it will be easier to collate and match invoices.
- The input tax credit requires all invoices to be matched in order to avail credit, which automatically places the onus on buyers to ensure that suppliers file returns and pay taxes on time. Hence **better tax compliance** can be assured.
- A manufacturer now pays tax only on the value added in a given stage of the process, rather on

the total cost of products, the **tax burden will be reduced.**

- Manufacturers will be able to take more rational decisions regarding sourcing of raw materials, location of manufacturing and warehousing facilities and sale of output, as India becomes **one big common market** post implementation of GST.
- GST, by avoiding cascading taxes and reducing the burden of tax compliance, should help in **boosting exports**, as happened in several economies including New Zealand and Australia.
- GST, by helping doing business in the country tax neutral, irrespective of the location of the business, minimises the sector and state variation in compliances as well as rates. This leads to **better allocation of resources.**
- **MSMEs also stand to benefit** from the provision of input credit on taxes under GST, which would help them become more competitive.

## 3. GST REGIME - A FILLIP TO MAKE IN INDIA

### What is GST Council?

- The guiding principle of the GST Council is to ensure harmonization of different aspects of GST between the Centre and the States as well as among States with a view to develop a harmonized national market for goods and services within India.
- The Council comprises of the Union Finance Minister (Chairman of the Council), the Union Minister of State (Revenue) and the State Finance/Taxation Ministers of 29 states and two union territories with legislature (Delhi and Puducherry).

The Council is tasked to make recommendations to the Union and the States on the following:

1. the taxes, cesses and surcharges levied by the Centre, the States and the local bodies which may be subsumed under GST.
  2. the goods and services that may be subjected to or exempted from the GST.
  3. the date on which the GST shall be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.
  4. model GST laws, principles of levy, apportionment of IGST and the principles that govern the place of supply.
  5. the threshold limit of turnover below which the goods and services may be exempted from GST and the rates including floor rates with bands of GST.
  6. any special rate or rates for a specified period to raise additional resources during any natural calamity or disaster.
  7. special provision with respect to the North-East States, J&K, Himachal Pradesh and Uttarakhand and any other matter relating to the GST, as the Council may decide.
- The Constitutional amendment provides that every decision of the GST Council shall be taken at a meeting by a majority of not less than 3/4th of the weighted votes of the members present and voting.
  - The vote of the Central Government shall have a weightage of 1/3rd of the votes cast and the votes of all the State Governments taken

together shall have a weightage of 2/3rd of the total votes cast in that meeting.

- One half of the total number of members of the GST Council shall constitute the quorum at its meetings. The weightage of voting has been so assigned that it is not possible for either the Centre or the states to take any decision unilaterally.
- As GST is a destination based tax, there was apprehension amongst some states, particularly manufacturing states, that implementation of GST may result in loss of revenue for them. Therefore compensation to the states for the loss of revenue arising on account of implementation of GST for a period of 5 years.
- The Indian GST will have a mechanism of matching of invoices. Input tax credit of purchased goods and services will only be available if the taxable supplies received by the buyer get matched against the taxable supplies received by the supplier.
- In the new GST regime, the tax-payer can register, file returns and make payment of taxes on a single portal on the net. Even in a rare case, if the tax-payer is to interact with the tax authorities, he will have to interact with only one authority, either from the State Government or from the Central Government as tax officers of the Central Government and the State Government are being cross empowered to take action in one another's law.
- Thus, corruption will be checked to a large extent as it will become increasingly difficult for the taxpayer to evade taxes and he will have minimal interaction with the tax authorities.

## 4. TRANSITIONAL CHALLENGES AHEAD

### What are the benefits of GST?

- GST is based on the principle of value added tax and either "input tax method" or "subtraction" method, with emphasis on voluntary compliance and accounts based system.
- It is a comprehensive levy and collection on both goods and services at the same rate with benefit of input tax credit or subtraction of value of penultimate transaction value.
- No scope for multiple levy of tax on goods and services, such as, sales tax, entry tax, octroi, entertainment tax, luxury tax, etc.
- Minimum number of floor rates and no scope for levy of cess, re-sale tax, additional tax, special tax, turnover tax etc.
- Zero rating of exports and inter State sales of goods and supply of services and A common law and procedures throughout the country under a single administration.
- Taxing of capital goods and inputs whether goods or services relatable to manufacture at lower rate, so as to reduce inventory carrying cost and cost of production.
- GST is a destination based tax and levied at single point at the time of consumption of goods or services by the ultimate consumer.

### What are the challenges under GST?

- GST is an IT driven law and it cannot be assured whether all the States and Union Territories in India are currently equipped with infrastructure and requisite manpower to embrace this law. Except few States like

Karnataka, Maharashtra and Gujarat, who have pioneered the E-Governance model, we have not heard about this trend in other States and Union Territories.

- In any new law, the old law as well as the new thought process of trust needs to be imbibed. The unlearning of the old law and learning GST provisions is imperative. All central and state government officers whether in VAT, service tax, excise or customs would have to learn the GST provisions and possible implications viz, a viz present gamut of taxes.
- GST law heavily banks on Information Technology and hence proper training has to be given to the departmental officers for effective usage and implementation.
- GST is expected to bring within its fold many new registrants, who have been hitherto kept outside the purview of tax mainly due to exemptions and also since the taxable event is wider in scope in GST. Transition of existing registered assesseees and registration of new assesseees and resolving of migration issues is a big challenge.
- There are concerns about registration, carry forward of credits and taking new credits, pending refund/rebate claims, review of contracts, change in taxable event for incomplete transactions, pending assessments, job work transactions, treatment of stock in hand, filing of returns etc.,
- There are many disputes pending in the context of present indirect tax laws (both Centre and State), which are at various stages viz., adjudication or appellate level. The adjudicating/appellate authorities, Courts and Tribunal are burdened with the pending cases. With GST now implemented. the Government should find ways and means to resolve these disputes.

- With GST structure in place both the Centre and State level officers are expected to work under one roof and in tandem by giving up their differences and non-alignment in the old regime.
- Evaluation of the competitiveness and the demand for the products in the backdrop of the new GST rate structure to ensure that products are neither overpriced nor under priced.

## 5. REMOVING CASCADING EFFECTS OF TAXES

- Goods and Services Tax (GST) is an indirect tax which will replace almost all other indirect taxes levied by central and state governments.
- However, it is noteworthy that there are a few sectors, such as petroleum, alcohol and real estate, which have been kept outside GST and will continue under the previous taxation framework.
- Barring such exemptions, all indirect taxes in India that were applicable earlier are going to be replaced by GST. Some of the major indirect taxes being subsumed under GST are – Excise duty, Service tax, Special additional duty of customs, State VAT, State sales tax, Entertainment tax, Entry tax, Luxury tax.
- The multiplicity of taxes and complex incidence on multiple stages created two problems – first, it made tax compliance harder for tax payers and also provided opportunities for tax evasion. Secondly, since each new tax was applied on the selling price that also includes tax paid in the previous stage, it basically meant a tax on the amount of tax paid at the previous stage, a phenomenon known as the cascading effect of taxes.
- Under the new GST regime, a particular good/service will attract only one tax rate, and it will be same in all the states. Also, each manufacturer/ seller/business entity will be able to avail the benefits of a scheme known as 'Input Tax Credit' (ITC).
- The direct and immediate impact of GST will be a new 'effective' tax rate on each of the goods and services. Depending on how different the new 'effective' tax rates are as compared to the pre-GST period, prices will increase or decrease accordingly.
- An indirect impact of GST, which is likely to be visible only in the medium to long term, can come through changes in production and supply chain processes.
- The process of Input tax credit mechanism reduces the total tax incidence, reduces the overall cost for the manufacturers/ sellers. This reduction in cost is expected to ultimately bring down the final price paid by consumers.
- To deal with firms not passing on the benefits of reduced cost to the consumers, Government has introduced a clause in the GST bill known as 'Anti-Profiteering Rules' which mandates the firms/businesses that any reduction in cost due to Input Tax Credit has to be passed on to the consumer by way of commensurate reduction in prices.
- There may be potential increase in prices is possible due to increased compliance cost, especially for small and medium enterprises, which brings us to the next part that how GST can affect consumers through its impact on production, businesses and supply chain processes.
- Abolition of check posts at interstate borders and this uninterrupted movement of goods across the country is likely to have a significant reduction in terms of transportation cost as well in terms of time requirement, thereby bringing the overall cost down.

## 6. CREATING A STRONG IT BACKBONE

### What is the need for IT infrastructure?

- The GST System Project is a unique and complex IT initiative. It is unique as it seeks, for the first time to establish a uniform interface for the tax payer and a common and shared IT infrastructure between the Centre and States.
- This strong IT Infrastructure and Service backbone enables capture, processing and exchange of information amongst the stakeholders including tax payers, States and Central Governments, Accounting Offices, Banks and RBI.
- The Common GST Portal is the single interface for all taxpayers from any part of the country. Only in case where a taxpayer is picked up for scrutiny or audit, he will interface with the respective tax authority. For all other cases, which is expected to be around 95 per cent, the Common GST Portal will be the only interface for taxpayers.

### What is GSTN?

- GST envisages credit of Input tax credit (ITC) of 80 lakh taxpayers to be processed within ten days after filing of monthly returns which is expected to contain 2.6 to 3.0 billion business to business invoice data. This feat is impossible without strong IT Infrastructure.
- The Goods & Services Tax Network or GSTN was conceived as the IT backbone of GST— an organization that would put in place the IT infrastructure for the new regime and enable the transition of taxpayers from the multiple existing systems to a single one.
- The Government of India and State Governments came together to create the Goods and Services Tax Network (GSTN), a Special Purpose Vehicle as non-government,

not-forprofit Company where Centre holds 24.5 per cent shares and all States collectively hold 24.5 per cent. The remaining shares are held by five private financial institutions.

- The GSTN has been designed to work as a one-stop shop for all indirect tax stakeholders providing services like common registration, creation of challan for payment through designated banks and upload of business to business invoice data to create return.
- Payment of taxes has also started taking place using one Challan for all types of taxes which are prepared on the GST portal. Once the Challan is created with GSTIN, name of taxpayer, amount under various tax heads and sub-heads etc, the taxpayer has two options to pay the tax.
  - He can either use net-banking facility out of 25 authorized banks or print the challan and take it to an authorized bank for payment over the counter (OTC).
- GSTN, have crafted a series of services and technological tools to ensure that paying taxes and filing returns becomes convenient for the last common denominator.
- GSTN has also designed an offline tool and a simple excel based template that will facilitate the taxpayers in preparing and filing their monthly returns with maximum ease and minimal cost.
- The GSTR excel template workbook can be used to prepare the GSTR return without connecting to internet in offline mode. This also benefits taxpayers in remote areas where Internet connectivity might not be good.
- GSTN, designed as a self-service mode, which is simple and adaptable for mobile systems as well, the interface will play a major role in empowering business and entrepreneurs and easing their tax paying procedures.